Appendix G: Comments of the Chief Financial Officer

1. Context

1.1. The 2nd July 2019 Cabinet approved the Council entering in to a strategic partnership with Legal & General (L&G), to negotiate and agree a non-legally binding Memorandum of Understanding to support the development of proposals for Temple Island (the site). This included the conditional disposal of the site to L&G on a long leasehold basis subject to demonstrating best consideration; and to the Council entering in to an agreement for lease relating to an office building not exceeding 100,000 sq ft through the first phase of works.

1.2. The non-binding Heads of Terms (HoTs) has been developed following detailed dialogue and outlines the main aspects of the proposed conditional commercial transaction with L&G, with the intention that Cabinet can give appropriate consideration to the proposition and if endorsed formal contracts will be entered into with the Council and L&G. This will enable both parties to progress with their respective parts of the redevelopment with the security of having a legal agreement in place.

2. The proposition in summary

2.1. Below is a summary of the proposition for the site:

- The Council to enable the site (enabling/infrastructure works) at costs not to exceed £32m (including inflation).
- L&G to submit application for planning permission to build out development as detailed in the non-binding HoTs.
- On successfully approval of planning permission and the Council completing the enabling works, the Council will dispose of the site to L&G. This will be on a 250 year lease for the 1st Phase of 2 Phases which will give L&G the right but not an obligation to build (subject to a long stop date).

    - **Phase 1**

    i. 2 Office blocks with the first block leased to the Council, with a Commencing Rent based on 4% of Office 1 total development costs for its 250 year lease. The second block will include a profit share element of 50% after L&G firstly deducts a developer's profit of 12%.
    ii. 4 residential blocks (c.400 units - targeting 40% affordable housing).

- The 2nd Phase will be a development opportunity for L&G who will be granted a right of pre-emption (first refusal) to be taken up by L&G at their discretion, when the Council decides to take Phase 2 forward.

    - **Phase 2**

    i. Hotel & Conference centre
    ii. Additional residential block (s) (units – to be determined)

2.2. The latest version of the HOTs (see Appendix I.3) underpins the proposition outlined in this report and the components have been independently assessed and considered appropriate by our advisors CBRE and a Value for Money (VfM) assessment has been undertaken by KPMG.

3. VfM assessment – summary of results

3.1. The KPMG report (see Appendix I.2) needs to be reviewed in full in order to understand the scope of analysis (including what impacts have or have not been captured in the VfM

assessment) and caveats and assumptions to the analysis which must be taken in to account when interpreting the results.

3.2. VfM assessments extend beyond the economic measures and consideration of a BCR and whilst this is the focus in this section the strategic, financial, commercial case for the proposals, including the rationale for intervention and risk is covered in depth within the KPMG report.

3.3. The VfM economic assessment has been conducted in accordance with the principles set out in the HM Treasury green book and based on a 25 year period utilises a consistent formulation to calculate:

- The total public sector contribution to costs.
- The economic net present public value (NPPV) of the project (Present Value of net benefits less the Present Value of net costs).
- The net benefit to public sector cost ratio (BCR) which reflects the benefits of a project relative to its costs.
- The public sector cost per job calculated based on the total gross public sector expenditure against the total net additional jobs (excluding any construction jobs).

3.4. The outcome of the VFM assessment in economic terms is outlined in the table below.

Table 1

	Phase 1	Phase 2	25 Year Total
Total net GVA (in NPV terms)**	£633.3m	£168.0m	£801.3m
Less Public sector contribution*	£28.8m	-	£28.8m
NPPV	£604.5m	£168.0m	£772.5m
BCR	22.0 : 1		27.9: 1
The public sector cost per job**			£18,975

Note:
**public sector contribution has been adjusted to exclude inflation.*
***GVA metric and cost per job excludes short term benefits attributable to the construction phase*

3.5. Based on the scope of quantified economic impacts, it is estimated that the BCR of 27.9:1 and economic NPPV of £772.5m could be achieved over a 25 year period and should Phase 2 not be progressed a BCR of 22.0:1 and NPPV of £604.5m could be attributed to Phase 1.

3.6. KPMG conducted sensitivity analysis on the scale of the overall variation in costs and benefits required to materially impact on the BCR, which indicated that costs would need to increase 27 fold or benefits would need to decrease by 96.4% to erode the benefits to the economy of this proposition.

3.7. The social and environmental impacts for Bristol also need to be taken in to account to reflect the wider aspects of the project and further details in this regard are outlined in the Social Value section (9) of this report.

The high and positive BCR for Phase 1 and 2 indicates that subject to the development proceeding as planned, the benefits to the wider economy considerably outweigh the public sector cost of enabling the proposed development.

3.8. Further consideration is given to the financial implications for the Council in the remainder of this report.

4. Land disposal for redevelopment

4.1. The nature of the proposition considered has been categorised as a conditional sale of a long leasehold interest for redevelopment and partial leaseback. While L&G are under no obligation to redevelop the site, they have indicated that should they proceed with the development; the land will only be acquired after the Council have enabled the site and L&G have successfully applied and obtained planning permission.

Enabling Works

4.2. The public sector should ideally only intervene when there is a market failure and when intervention will lead to an improvement or greater efficiency. The site has been vacant for over 20 years and was acquired from Homes England in 2015, with an understanding that it was contamination-free. It was identified during previous land investigations that some contamination still exists and the site requires remediation works to be undertaken as well as some works to ensure that the site is accessible. To carry out these works require upfront cost and risk which may impact the commercial viability of private sector developments on the site.

4.3. Given the challenges and constraints on the site public sector intervention is required to enable the development of the area as outlined in this proposition. The remediation / enabling work is estimated to cost £28.8m (for the entire parcel of land, Phase 1 & 2). This figure includes, project management costs, structural works including utilities and risks contingency (c.18%). A further inflation contingency has been incorporated of £3.0m (c.11%) bringing the estimated total costs to £31.8m.

4.4. It will be necessary for the Council to facilitate the completion of these works and secure the necessary funding. The Council's liability in relation to the enabling works is capped at £32.0m (subject to inflation) and the legal agreements will outline the obligations of both parties in seeking to ensure that these costs are contained within this cost envelope for example via value engineering. The Council will have no obligation to increase the funding and no provision has been made in this assessment to do so. Should the Council want to exercise its discretion to increase the funding as outlined in the HOTs a further Cabinet approval would be required.

4.5. The high level costing is summarised in table 2 below and it should be noted that approx. £0.5m of this expenditure has already been committed at risk.

Table 2

Source: Aecom & the Council (for project management costs only)

4.6. The works and costs are based on work undertaken by AECOM (Council's technical advisors) however, details of these may change as the plans for the site are progressed and works tendered. The VfM demonstrates that a positive BCR could be delivered from this enabling investment.

4.7. Of the £32m, £2.0m funding will need to be draw down in 2020 at risk, to enable the Council to continue to progress the legal agreements and commence delivery of the Council's obligations prior to receiving formal agreement of the funding source. This is in addition to £0.5m approved by Cabinet in July and is broken down in the Table 3 below. If endorsed this will need to be temporarily funded from the capital contingency, recognising some risk of reversion if this scheme does not proceed and the risks that utilisation of the capital contingency could reduce the flexibility to deal with financial risks associated with other schemes and new pressures that require capital investment during the medium term. The

residual drawdown of the remaining £30m is expected to be in line with the profile in table 2 above.

Table 3

Temple Island - additional funding	Total
Internal Fees/Costs	£ 180,000
Enabling & Infrastructure	£ 1,278,432
Valuation work	£ 110,000
Legal Advice	£ 75,000
Communications (Supplier TBC)	£ 8,000
Site works	£ 54,000
Miscellaneous/contingency	£ 255,815
	£ 1,961,247

Funding

4.8. The West of England LEP (LEP) considered a business case for the former Arena proposition in July 2016 and approved funding of £53.0m from the Economic Development Fund (EDF) with conditions. As the original business case to which funding was allocated will no longer be progressed, the Council has a right to seek substitution of the EDF to an alternative scheme.

4.9. EDF Funding is primarily directed at projects within the Enterprise Zones and Enterprise Areas to deliver economic growth, particularly business rate growth. The Council will seek a substitution of £32.0m to facilitate the enabling works. Any substitution must align to the City Deal objectives and will be subject to submission of a new business case to the LEP to be taken forward for decision by the Joint Committee. The business case will need to address all relevant aspects of the economic and financial case including wider infrastructure requirements, viability, cost, benefits, VfM and state aid. The high BCR, low estimated public sector cost per job and being a scheme aimed at redevelopment which includes residential and commercial space for job creation, will provide a strong foundation for this business case.

4.10. The general assumption is that payment from the EDF will commence at practical completion and as such if approved there will be a requirement for the Council to forward fund the project utilising borrowing mechanisms. Due to the material scale of the project staged payments would be requested once the detailed programme and costs were confirmed and as such avoiding the council carrying significant costs in terms of borrowing and interest.

4.11. Due to a prior re-profiling of EDF allocation to support the Avonmouth Severnside Enterprise Area (Flood Defence and Eco Mitigation) project, £15.0m of the available EDF is now held in 2028 and 2032. Table 4 below details the budget profile based on the project forecast above, latest and proposed EDF profile across multiple years and indicates minimal headroom for scheme accelerated funding post 2022/23.

Table 4

"Proposed" - New EDF profile (With £53m re-purposed)

Scheme	Note	Total 2015 - 19	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2028/29 £m	2032/33 £m	TOTAL £m
BCC - Original Cumulative Annual Allocation		**57.850**	**58.350**	**73.230**	**77.380**	**77.380**	**82.380**	**82.380**	**82.380**	**92.380**	**127.380**	**127.380**
BCC Revised Allocation												
TQEZ Investment Team	Approved	2.500	0.500									**3.000**
M32 Park & Ride	Approved										20.000	**20.000**
MetroWest Phase 2	Approved			7.980								**7.980**
Avonmouth/Severnside Ecology & Flood	Approved	1.068	2.471	12.608	11.006	4.967	0.780					**32.900**
Central BRS & TQ EZ Flood Defence	Sub - Approved									5.000	5.000	**10.000**
Engine Shed 2	Sub - Approved	0.015	0.150	1.800	2.035							**4.000**
Temple Island enabling works	**Sub - Proposed**	**0**		**0.639**	**8.442**	**20.999**	**1.244**	**0.345**	**0.331**			**32.000**
Held in Abeyance	Sub - Unalloc	0					2.500			5.000	10.000	**17.500**
Total			**3.121**	**23.027**	**21.483**	**25.966**	**4.524**	**0.345**	**0.331**	**10.000**	**35.000**	**127.380**
Revised Cumulative Annual Allocation		**3.583**	**6.704**	**29.731**	**51.215**	**77.180**	**81.704**	**82.049**	**82.380**	**92.380**	**127.380**	
Variation		**-54.267**	**-51.646**	**-43.499**	**-26.165**	**-0.200**	**-0.676**	**-0.331**	**0.000**	**0.000**	**0.000**	

4.12. The profile and costings may be subject to change as the project progresses and where required will need to be submitted to the WOE Joint Committee for approval. All changes must be contained within the Councils overall annualised EDF allocation. Commercial

negotiations need to be concluded in a number of areas and it is proposed that the residual unallocated funds of £17.5m are held in abeyance subject to the conclusion of where the financial liability resides, recognising that further substitutions may be required with other schemes within the Council's or West of England Combined Authority (WECA) Capital programme should the timing require an acceleration of these funds from 2028/2032.

4.13. The actual level of EDF available is dependent on the overall business rate growth across the sub-region's Enterprise Areas and Enterprise Zone, being in line with original modelling assumptions, which is estimated to deliver £500m additional business rates over a period of 25 years (from 2014 until 2039). So far, business rate growth across the sub region has been below original model assumptions (which are underwritten by each unitary authority), as key schemes have not been completed in line with original plans. If this continues into the future, it will see an adverse impact on the level of EDF available for programmes that have not yet received final approval.

Submission of a new business case to the WOE LEP for decision a by the Joint Committee to approve the substitution of £32.0m to facilitate the enabling works, and the residual unallocated funds of £17.5m are held in abeyance subject to cabinet approval for any additional investment.

Land Premium

4.14. The premium to be paid for the land will be underpinned by a 'Red Book' valuation once the Phase 1 conditions have been satisfied and providing an opportunity for the Council to benefit from a capital receipt from the disposal of the site. The current estimates of the land valuation received from CBRE indicated a value in alternative use of £5.2m (Phase 1 only) after allowing for special purchasing assumptions. This equates to £1.03m per acre. The site wide public realm cost of £4.6m, which are standard residual value deductions result in the indicative net land premium of £5.2m for the Phase 1 site. This should be considered guidance only and is not intended as a formal valuation. The actual future land premium when received is expected to contribute to the Council's capital receipt target which underpins the delivery of the Medium Term Financial Plan (MTFP) and as such is not assumed in offsetting any additional costs that may be associated in delivering this specific proposal.

4.15. There have been a limited number of land sales in the area over the last few years but those that we have been made aware of (source: CBRE) are outlined in the table below and are illustrative of the level of land values being realised. As evidenced values north of £4.0m per acre has been achieved and the adjacent land for the University of Bristol campus being a case in point. Whilst it is recognised that these are fundamentally different schemes, subject to different economic and environmental conditions and requiring varying degrees of public sector investment; in the absence of market testing they provide a broad comparator prior to the adjustment for the assumptions that the we have taken account of in this scheme.

Table 5

	Current Phase 1 Valuation	Market Comparator - Recent Land Sales by exchange date			
	CBRE/L&G	**Q4 2015**	**Q2 2016**	**Q3 2017**	**Q3 2018**
Land Value per plot					
£/acre	£1,035,270	£8,066,667	£4,150,000	£4,160,790	£13,043,478
Temple Island acres (Phase 1 only) Approx.	5.02	5.02	5.02	5.02	5.02
Total Land Value	**£5,197,057**	**£40,494,668**	**£20,833,000**	**£20,887,166**	**£65,478,260**

4.16. The assumptions that have been made by our property team working in conjunction with CBRE and L&G advisers are outlined in Appendix I.5 CBRE Letter (unredacted). This approach is considered by the lead professionals to deliver better than open market deliverables at the stage prior to planning consent being granted and enabling works being undertaken. Once the above are known, the future (approximately two years' time) valuation in accordance with S233 will then take account of the prevailing market conditions at that date.

4.17. The L&G financial model collates the financial input data e.g. development cost, rent payments and funding yield for each of the propositions, which generates a residual land value attributed to land payment (capital receipt) for Phase 1. This methodology contains variable components which could result in a materially different value / cost +/- the figure above and the most significant is L&G's funding yield.

Yield sensitivity - impact on land value

4.18. The % Yield assumed in the investment valuation will have a significant impact on the residual land value and the potential capital receipt. Table 6 below provides a demonstration of how lower yield results in a high land value and vice versa and for illustration purposes assumes all other variables remain unchanged.

Table 6

Yield / Residual Land Illustration - Office 1

Initial MRV	2,063,428	2,063,428	2,063,428	2,063,428	2,063,428	2,063,428	2,063,428	2,063,428
% Yield*	5.00%	4.75%	4.50%	4.25%	4.00%	3.75%	3.50%	3.00%
Residual Land Value	-£ 2,689,283	-£ 758,350	£ 1,387,131	£ 3,785,022	£ 6,482,650	£9,539,961	£13,034,033	£ 21,769,211

**** Original Values are varied in Fixed Steps of 0.25%***

4.19. The analysis shows that a subtle change of 0.25% has a significant impact on the residual land value. The variation ranges from 3% - 5% resulting in indicative residual land values of between £21.8m and -£2.7m. It is worth noting that while this analysis has only focused on Office block 1, the yield assumed in Office Block 2 and other Residential blocks are up to 5.5%. Yields depend on many bespoke project issues and this is a large risky non consented project which needs highlighting against those that are far more certain, less risky, smaller and consented. These 'unknown' areas of this proposition could result in valuations for subsequent plots being materially diminished.

4.20. If the land valuation is reduced to take account of matters such as L&G building infrastructure that will service Phase 1 and 2 (which brings a higher risk) or a higher than policy compliance level of affordable homes (40%) being offered then the Council should explore further the inclusion of an overage clause in the HOTs / legal agreement securing the rights to a share of any uplift above the agreed values and capture further value through future transactions.

4.21. Homes England has an overage provision on the land with rights that flow from the benefits and a time limited option regarding bringing forward the development. Due to the scale of enabling works that will be required on the site, this would create a negative land value and as such no allowance has been made in the model for a payment from the Council in association with this obligation. It is anticipated that this will be resolved prior to grant of lease to L&G, however there still remains a risk (perceived to be low) to the proposition value if the Council is not released from these restrictions / obligations.

4.22. A buy back clause is in place which enables the Council after 40 years, subject to the obligations of the lease being met, to require L&G to surrender the lease for Office Block 1 for a nominal value of £1. This would enhance the value of the Council's interest and provide a potential for greater revenue return on future rental streams. Given the actual value of the site will be greater than the nominal value it is likely to result in a SDLT liability for the Council.

Although the principles upon which the deal is intended to be transacted on are broadly agreed, there are various elements that need further negotiations between now and legal agreements to finalise the deal to which those assigned with delegated authority can sign-off.

5. Phase 1

Office Block 1

5.1. It is anticipated that L&G will take up the opportunity to deliver the office block scheme, as specified in the HOT's and the Council will take on the head lease for the office building, with the intention of subletting it to a commercial occupier. This approach is intended to de-risk the project for L&G and provides proof of concept to incentivise the progression of the residual developments.

5.2. No certified build cost / cost estimate or formal cost plans are available from L&G at this stage in the process for office block 1. However following discussions with L&G early indicative development costs have been produced by our valuation consultants CBRE and a draft financial model produced that can generate a target rent for the block, ROI from L &G's target Yield and the Councils potential letting income from the sub lease.

5.3. The total development cost for office block 1 as outlined in table 7 below, is estimated to be c.£45.9m (including land acquisition).

Table 7

Office block 1 - (Taken from CBRE Valuation)

	£'000	£'000	£'000
Purchaser's cost	2,920		
Land	6,483		
Stamp duty, agent fees, planning etc	884		
		10,287	
Construction	26,454		
Developers Contingency	1,323		
CIL	750		
Building Curtilage 2m	157		
Public Realm (site wide)	1,141		
		29,825	
Professional Fees	3,193		
Management Fees	798		
Finance	1,756		
		5,747	
Total Cost			**45,859**

5.4. The total development costs and 4% yield results in a commencing rent of £19.50 per sq. ft. resulting in a lease liability estimated at c. £2.063m per annum (gross), indexed annually at RPI (collar and cap of 1% – 4%), payable by the Council to L&G.

5.5. The market rent for office block 1 sublease is expected to be c.£3.756m (£35.50.per sq. ft) which the council is advised is in line with current prevailing market conditions. Based on a 100,000 sq. ft the potential rental profit for the Council (excluding voids & rent-free periods) is estimated to be £1.69m per annum (on a fully let building) at 2020 prices. Assuming voids and rent free periods of up to 12 of the 40 years lease period, the total rent will equal £44.8m (before inflation and other revenue expenditure).

5.6. Based on the initial yield of 4% as outlined above, the development Yield% (on Rent) which will be payable by the Council is c.4.81%. This can be compared to 2.8% current external PWLB (the UK Municipal Bonds Agency established to provide an alternative funding vehicle for UK local authorities are expected to have even lower rates) and 2.25% capital market rates where the Council to self-fund office block 1 for a period of 40 years. The Council should consider this variant, risk transfer to L&G, delivery skills and capacity when considering the final position.

5.7. The table below demonstrates the impact on the residual value calculation for the land, for each £1 by which the rental value were to increase:

Table 8

Temple Island - additional funding

	Total
Internal Fees/Costs	£ 180,000
Enabling & Infrastructure	£ 1,278,432
Valuation work	£ 110,000
Legal Advice	£ 75,000
Communications (Supplier TBC)	£ 8,000
Site works	£ 54,000
Miscellaneous/contingency	£ 255,815
	£ 1,961,247

5.8. The Council has an option to reduce the rent by foregoing all or a portion of the capital receipt for its land, thus reducing the total Phase 1 office development cost and similarly the option to increase the rent closer to market value should be available to increase the capital receipt.

5.9. No allowance or budget provision has been identified for the areas outlined below and therefore the financial assumption is that any associated costs will be offset against the rental profit outlined in 5.5 above.

— Operator cost and operator margins
— Lifecycle costs for the office
— Ongoing maintenance costs

5.10. A number of Pre conditions are outlined in the HOTs which have financial implications not fully articulated or costed and no additional funds have been earmarked or included in the BCR calculations. A plan for satisfactorily addressing these items need to prepared and evaluated to ensure the proposals remain affordable and does not have state aid implications.

— Reasonable emergency access to and from the University of Bristol's adjacent development.
— The provision of appropriate / sufficient Car Park solutions.
— Compensation arrangements where obligations (some of which are outside the Councils control) have not been met.

5.11. In seeking to ensure subsequent decisions made in regards to the areas outlined above, do not destabilise the Councils capital and revenue (capital financing) budgets, provisions to address these issues, £17.5m of EDF funding will be held in abeyance subject to Cabinet approval. See Section 4.11 above.

5.12. The approach proposed will render the Council liable for tax and a separate review will need to be undertaken of potential VAT and other tax implications of the scheme. The working assumption previously was that the scheme would not have additional VAT / SDLT implications for the Council however as plans have progressed the position has changed and tax advice will need to be sought prior to concluding the legal agreements.

5.13. Further modelling will continue as the schemes progress to test the sensitivities as these models develop.

Prior to the Legal agreement (Lease agreement) being entered into, we will ensure that the Councils obligations / preconditions are addressed, remain state aid compliant, tax efficient and does not materially change the calculated BCR.

Office Block 2 and Residential Plots

5.14. Subject to 50% pre-letting being achieved in office block 1 (prior to completion), work will commence on office block 2, which is to develop c. 80,000 sq ft of office space. This will be on a speculative basis, whether or not a pre-let has been obtained resulting in a greater risk transfer to L&G. As a result L&G will deducts profit of 12% which is assumed (at this stage) to be ROI of 12% on all costs of developing the office scheme with a profit share element of

50% with the Council thereafter. The normal developers profit in the open market expected for speculative office development is more in the region of 20%, therefore L&G are taking less value from the project, enhancing the Council's residual value

5.15. Phase 1 is intended to include up to 400 residential units, 40% affordable with the exception that the specific levels of social rent and shared ownership can be agreed with the Council's Housing Team.

The maturity of the propositions and the availability of data, presents a challenge in undertaking a detailed financial assessments on Office Block 2 and the Residential units. This will improve over time and as such the proposal should be considered an evolving / iterative proposition, which will be regularly refreshed in line with the development as they progresses through the various stages within this process and should be subject to appropriate technical, legal and financial due diligence in terms of viability, deliverability, affordability, state aid and best consideration

6. Phase 2

6.1. This Phase will be a development opportunity for L&G who will be granted a Right of pre-Emption (first refusal) to be taken up by L&G at their discretion, when the Council decides to take Phase 2 forwards. Phase 2 will consists of a conference centre, Hotel and another residential block. It is anticipated that this phase will commence within 5 years of Phase 1 and that L&G will work with the Council to develop the remaining land.

6.2. L&G will enter a pre-emption agreement with the Council , giving them the right, but not an obligation to draw down a 250 year lease for the plots contained within Phase 2 at a premium to be calculated prior to such rights of pre-emption being exercised and it is anticipated that similar principles as agreed for Phase 1will be used. Phase 2 is not part of the initial land disposal in section 4 above and the proposed uses today of Hotel/Conference centre and residential uses can be changed if future prevailing market conditions or Council aspirations alter and other uses are preferred.

There is greater uncertainty attached to the Phase 2 development. The Council will work with L&G on timescales to suit both parties, but will retain the right to be free to decide on timing so the Council has more control over when Phase 2 can be brought forward.

7. Council Revenue Funds

7.1. As outlined in the VfM review the proposal carries the potential for additional business rates of some £0.840m per annum, £21m over the 25 year period (subject to there being no changes in the business rates reforms) and as part of the pooling arrangement 50% of the business rates generated would be transferred to finance the EDF pool, 49% c.£0.411m / £10.3m (25 years) would be retained by the Council and considered additional base revenue and1% the Fire Authority.

7.2. In addition to the above the scheme also incorporates residential units which subject to occupancy will attract Council Tax. On the assumption that all the dwellings are Band A, are rated for the full financial year with no students, the Band D equivalents have been calculated for new homes. The figure has been reduced by 25% to take into account any discounts, exemptions and Council Tax Support Scheme on new properties and 1.5% loss on collection. It is estimated that the full year effect based on indicative 2020 rates (Bristol

element only) once all units are fully completed would be £0.346m per annum c.£5.3m over the 25 year period in additional base revenue to the Council.

Table 9

Business Rates	25 Year Total £m	Council Tax	25 Year Total £m
Phase 1 - Operation	£14.70	Phase 1 - Residential Units	400
Phase 2 - Operation	£6.30	Phase 2 - Residential Units	TBC
Total	£21.00	Total	400
		Band D - equivalent	250
NPV Retained @ 49%	**£10.29**	NPV @ 2020 Rate	**£5.25**

7.3. The scheme also has the potential to deliver additional Community Infrastructure Levy (CIL) which is estimated at £1.9m for Phase 1. It also has potential to generate CIL for phase 2also additional New Homes Bonus grant (noting the current arrangements are subject to change) which at this stage cannot be quantified.

It is anticipated additional annual base revenue resulting from business rates and council tax of £0.757m (£15.5 over 25 years) will be generated to support the delivery of core services to the development, contribute to the wider sustainability of council services and further CIL of £1.9m to support future infrastructure delivery.

8. Termination Provision

8.1. A number of Pre conditions are outlined in the HOTs which have financial implications not fully articulated or costed. Until the point that these pre-conditions are met, there is a possibility that the deal will not progress. Any legal agreement will contain provisions that allow either party to withdraw from this proposition. If L&G withdrew, then there is no liability on the Council to cover reasonable planning costs, however, where L&G is unable to obtain reasonable planning (a matter outside of the Council's control), or the Council decides not to progress the land disposal, it will be obliged to reimburse L&G reasonable costs incurred in pursuing planning.

8.2. No termination clause or provision is outlined in relation to termination of the lease by either party and compensatory reimbursements for matters outside of the Council's control should be considered in terms of the residual benefit derived. This will be addressed as part of the Legal agreements.

9. Social Value

9.1. There is a recognition that the social and environmental impact for Bristol also needs to be taken in to account to reflect wider aspects of the project. As a public body it is expected that delivery partners and supply chain seek to promote or improve economic, social and environmental well-being of the area. The Council has a Social Value policy which has adopted the social value definition as set out by the UK Sustainable Procurement Taskforce.

Definition:
"A process whereby organisations meet their needs for good, services, works and utilities in a way that achieves value for money on a whole life basis in terms of generating benefits not

only to the organisation, but also to society and economy, whilst minimising damage to the environment"

9.2. Organisations working in collaboration with the Council and our communities should seek to measure their social value impact in Bristol and report it annually. A new toolkit has been launched to help organisations in identify the priority areas and quantify the positive impact they are having in the city.

9.3. We recognise that this proposition may not be sufficiently well developed, to enable the social value offer being made to be clearly articulated and the potential assessed. A joint commitment should be made by the Council and L&G to optimise local social value in not only the enabling works which will be led by the Council but construction and ongoing operation of the development and targeting the generation of Social Value to that which will connect with need and demand in the city. The toolkit can also be used and re-used at a later date to check whether improvements have been made in the Social Value being generated and double counting of economic impacts avoided and / or where identified removed from the analysis.

Consider:
Referencing in the HOTs the Council's Social Value Policy and recognising the need to measure the additional social value generated via the toolkit. The subsequent legal document should outline the commitment to targeting the generation of social value to that which will connect with need and demand in the city with the impact of the social value being generated annually measured.

10. Risk and Uncertainty

10.1. Even with robust assumptions, there will still generally be risks to consider and there will be uncertainty over the range of possible outcomes. A distinction may be drawn between a risk which is measurable and has a known or estimated probability (to which contingencies can then be applied), and an uncertainty which is more vague and of unknown probability. The Council has complied a register of all known risks. It has also estimated the monetary value of all risks with a Red RAG status (where possible) and these have been used by KPMG in the VFM appraisals (See Appendix)

10.2. It is impossible to guarantee precision in BCR calculations given the scale of variable factors and contingencies affecting costs or benefits in the near and long term. Risk adjustments have been carried out on these assessments, although if more accurate information becomes available, this should be refreshed.

10.3. Any public sector investment will need to be constrained to public realm infrastructure and avoid incurring any expenditure which could be at risk of not being compliant with State Aid regulations. Current advice received from Legal experts is that the current proposal to fund enabling works is State Aid compliant, although this position is under constant review.

10.4. All other financial assumptions remain the same as reflected in the KPMG VfM report appended separately